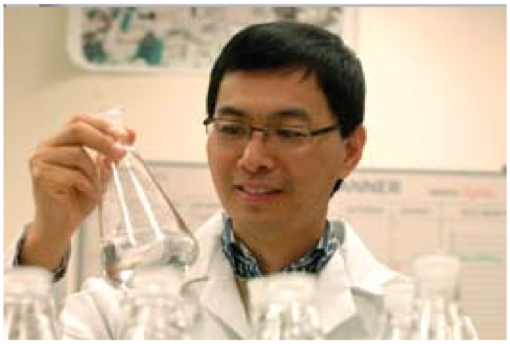
Only Pure Tap quenches my thirst after a hard game on the court.

Marley Cheeks

The cutting-edge research we perform at LWC ensures the highest quality and the best tasting drinking water in the nation.

Dr. Rengao Song, LWC Manager of Water Quality & Research



Not only do we have the best-tasting water in America, we have the best water company in the country.

Jerry Abramson
Louisville Metro Mayor

BEST TASTING TAP WATER IN AMERICA

I care about water. It is my drink of choice. I don't always trust tap water when I travel. It's great to come home and step up to the nearest water fountain.

Tori Murden McClure, First woman to row across the Atlantic Ocean

Pure Tap–the drink of choice for a healthy body and great smile!

Dr. Adewale Troutman, MD, MPH, MA
Director of Louisville Metro
Public Health and Wellness

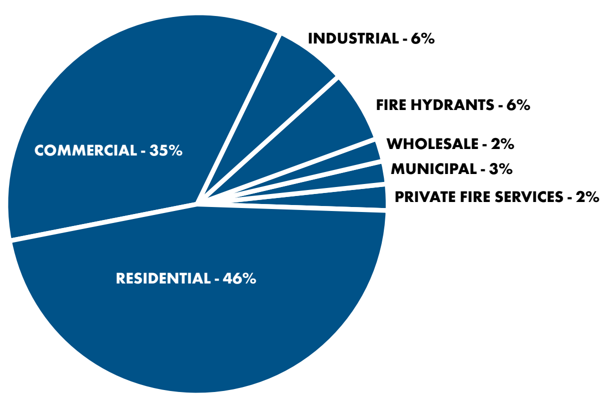
OPERATIONS

(amounts in millions)

	2008	2007	2006	2005	2004
Water Delivered to Mains (*Net System Delivery*)	47,460	48,817	44,590	47,733	46,276
Total Consumption	38,710	41,072	36,979	40,052	38,243
Unaccounted-for Water	8,083	7,220	6,810	6,838	7,086
Average Daily Delivery	130	134	122	131	127
Average Daily Water Usage	106	113	101	110	105
Average Daily Pumpage	132	136	124	133	128
Maximum Daily Pumpage	180	197	173	205	161
Other Measures:					
Percent of Water Unmetered	17.2%	14.9%	15.5%	15%	15%
Average Residential Monthly Water Bill*	$ 19.78	$ 18.40	$ 17.25	$ 16.43	$ 15.43

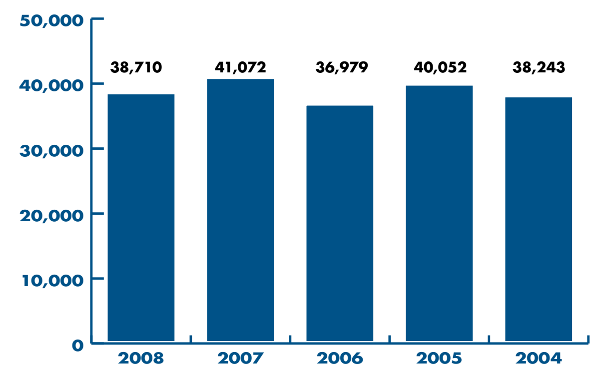
*Based upon median usage of 6,000 gallons per month

WATER REVENUES



TOTAL WATER CONSUMPTION

(amounts in millions)



HISTORICAL REVIEW

	2008	2007	2006	2005	2004
Operating Revenues	$ 136,743,203	$ 132,056,330	$ 114,092,112	$ 115,230,255	$ 103,462,053
Total Operating Expenses	93,463,409	89,151,682	80,028,845	76,376,589	70,024,119
Net Non-operating Expenses	(4,037,780)	(2,278,127)	(3,373,310)	(4,131,916)	(4,868,918)
Net Income before distributions, contributions and extraordinary items	39,242,014	40,626,521	30,689,957	34,721,750	28,569,016
Dividends Paid and Payable	(17,530,210)	(18,331,412)	(14,058,863)	(16,178,050)	(14,552,137)
Contributions	11,962,468	19,716,903	19,299,646	15,797,959	16,430,901
Increase in Net Assets	33,674,272	42,012,012	35,930,740	34,341,659	30,447,780
Net Assets, beginning of year	683,483,508	641,471,496	605,540,756	571,199,097	540,751,317
Net Assets, end of year	717,157,780	683,483,508	641,471,496	605,540,756	571,199,097
Other:					
Investment in System	$ 69,349,858	$ 62,357,775	$ 61,655,812	$ 61,700,410	$ 52,414,164
Debt Service Coverage	2.69	3.00	2.78	3.48	3.03
Return on Total Assets	4.03%	4.14%	3.41%	4.66%	3.95%

PRESIDENT'S MESSAGE

It is my pleasure to provide you with Louisville Water Company's 2008 annual report. This year, we made great strides toward our vision of becoming the region's water supplier of choice by expanding our service area, creating new lines of business and providing outstanding water quality.

The first thing you notice about a glass of Louisville tap water is, well, it tastes great! We have always believed that our product is superior; now our peers agree. In 2008, Louisville Water was named "best-tasting tap water in America" by the American Water Works Association. The safe supply of drinking water we provide is foundational for our city—from public health to economic development and tourism. The quality of our product drives our vision to become the water supplier of choice throughout the region.

Growing our business

The Ohio River provides an abundant supply; every day nearly 90 billion gallons flow by Louisville allowing us to share that supply with neighboring communities. We are pursuing a partnership with five water utilities in Central Kentucky to build a 37-mile pipeline along Interstate 64 to Frankfort. This pipeline will carry up to 10 million gallons of drinking water each day to this growing sector of the Commonwealth. We are also partnering with Hardin County Water District 1 on a proposal to privatize Fort Knox's water supply and we're working with Hardin County Water District 2 to build a pipeline along Interstate 65 that would supply areas north and east of Elizabethtown.

We created new lines of business in 2008. Customers now have the option of purchasing an insurance plan through a third-party vendor, Home Services USA, on their water service line from the meter to the house connection. I'm pleased to report that more than 47,000 residential customers registered for this service in 2008. We also launched our private-label bottled-water program, allowing customers to design their own label for bottles filled with Louisville Pure Tap.

Some of the world's most innovative work to improve drinking water quality is occurring nearly 150 feet below the ground at our B.E. Payne Water Treatment plant. This project, riverbank filtration, combines tunneling technology with collector wells and is the first of its kind in the world for drinking water. The natural filtering of the ground water by sand and gravel in the aquifer will allow us to exceed the new federal drinking water standards that take effect in 2012. When the 10-foot diameter tunnel and pumping station are online with our existing well, production capacity will reach up to 75 million gallons of water a day. This project is slated for completion in 2010. In 2008, we also tested the feasibility of using riverbank filtration and ozonation at the Crescent Hill Treatment plant. Initial research shows both are viable options.

Weather and the economy

Our business is affected by many factors, including the economy and the weather. Our operations were tested when hurricane-force winds crippled the city in the fall. More than 80% of our service area was without power for days. Yet we continued to operate with no service disruptions. Generators at pumping facilities went online with little disruption to operations. Employee experience came through when plant operators had to rely on discharge pressure to keep tanks full due to downed power and phone lines.

Louisville Water, like so many other businesses, felt the impact of the recession. Fuel, power and chemical costs increased significantly; by the end of the year, sales began to decline for large industrial and commercial customers. Further, new development dropped off and interest earnings were reduced due to lower rates and banking instability. Although Louisville Water is in sound fiscal condition and exceeded both financial and operating targets for the year, it is prudent to pursue a cautious plan into 2009, should the recession be prolonged. Our Board made a strategic decision to raise water rates beginning January 1, 2009, by 5.5%. This increase was 1% less than planned, to reduce the impact on customers. We have aggressively reduced operating expenses with a hiring and travel freeze, a salary freeze for senior management and a reduction in overtime and discretionary expenditures.

Community Involvement

Giving back to the community we serve is important to our company. Thousands of children learned the value of safe drinking water through our school-based education program. One of them—a dental partnership, Smile Kentucky!—was endorsed as a statewide education program by the Kentucky Dental Association. You may often spot a Pure Tap bottle at community functions; we provide thousands of bottles of Louisville Pure Tap for walks, runs and festivals. Our employees also pledged a record amount in 2008 to three charities: Metro United Way, Fund for the Arts and Water For People.

As I reflect on the efforts and accomplishments of 2008, I'm most proud of our employees, who contribute every day to the quality and reliability of drinking water and fire protection to our community. At Louisville Water Company, we have much for which to be thankful. However, we are particularly thankful for the privilege of providing the most necessary of all commodities: safe, clean water.

Greg C. Heitzman

President and CEO, Louisville Water Company

An excellent program; girls loved the water drop experiment and seeing how much water they used daily.

Girl Scout Troop Leader who used
LWC's Adventures in Water patch program

LOUISVILLE WATER COMPANY VISION

We will remain the water supplier of choice throughout the region by:

- Providing best-of-class quality, customer service and value
- Expanding the geographic areas we serve
- Creating new lines of business building on existing competencies

LOUISVILLE WATER COMPANY MISSION

To provide safe, high quality water and related business services earning customer trust and confidence.

INTRODUCTION

Louisville Water Company provides water to about 850,000 people in Louisville Metro and parts of Bullitt, Nelson, Oldham, Shelby and Spencer counties. In 2008, the company delivered an average of 130 million gallons per day through more than 4,080 miles of water main.

Water is drawn from the Ohio River at three points: the raw water pump station at Zorn Avenue and River Road, the B. E. Payne plant northeast of Harrods Creek, and through a riverbank filtration well at the Payne plant.

The water is treated at two locations: the Crescent Hill plant, which has a capacity of 180 million gallons per day, and the Payne plant, which has a capacity of 60 million gallons per day. Both plants treat the water using processes that include coagulation, softening, corrosion stabilization, disinfection, filtration, fluoridation and final disinfection. Storage capacity for treated water totals more than 92 million gallons, in reservoirs, elevated tanks and standpipes.

Mains range up to 60 inches in diameter. Booster pump stations, pressure-reducing stations and water storage facilities are used to maintain the appropriate pressure throughout the system.

To ensure the highest quality, we operate a laboratory certified by the state of Kentucky under U. S. Environmental Protection Agency standards, performing more than 120,000 water quality tests every year.

Louisville Water wholesales to West Shelby Water District, North Shelby Water Company, North Nelson Water District, Taylorsville, Lebanon Junction and Mount Washington.

Louisville Water Company is awesome. Its support of the running community is outstanding. Runners know when they cross the finish line that the water waiting for them is not only refreshing, but tastes great as well.

Swag Hartel
Owner, Swag's Sport Shoes
Internationally known runner

TOP QUALITY WATER

National Recognition

Our dedication to water quality brought national recognition from two sources in 2008.

First, we won the American Water Works Association (AWWA) annual "Best of the Best" contest for the best-tasting tap water in the nation.

We also tied for second place in water quality in the SustainLane rankings of the nation's 50 largest cities for qualities that make a city "green," sustainable and livable.

The AWWA contest featured entries from throughout the nation. The entries are judged on a regional basis. Our company has now won the Kentucky-Tennessee region's competition two years in a row. The regional winners face off at the AWWA's national convention. Judges include water and taste professionals and media representatives from the convention's host city. Louisville was named best of 15 regional winners.

The SustainLane rankings are based on the Environmental Working Group's December 2005 database of national tap water quality, which was collected from state water offices. Kansas City ranked first; Louisville and Portland tied for second.

Maintaining Our Quality

Maintaining our high quality demands continuous effort and improvement. Advances in science and technology help detect smaller and smaller levels of contaminants in water.

Our efforts in recent years have concentrated on two methods:

- Riverbank filtration, which uses the natural filtering ability of sand and gravel in the earth to clean water from the Ohio River as it is drawn from wells along and under the river.
- Ozonation, which uses ozone to sterilize the water and kill bacteria and other microscopic organisms that can cause illness.

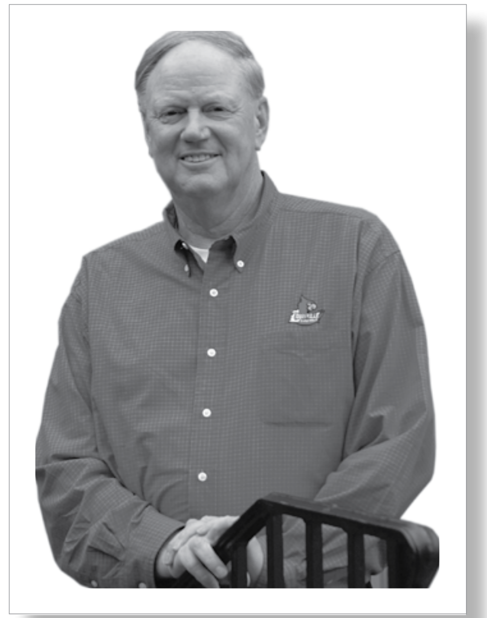
LWC is poised to exceed the new drinking-water regulations that take effect in 2012 with this new technology.

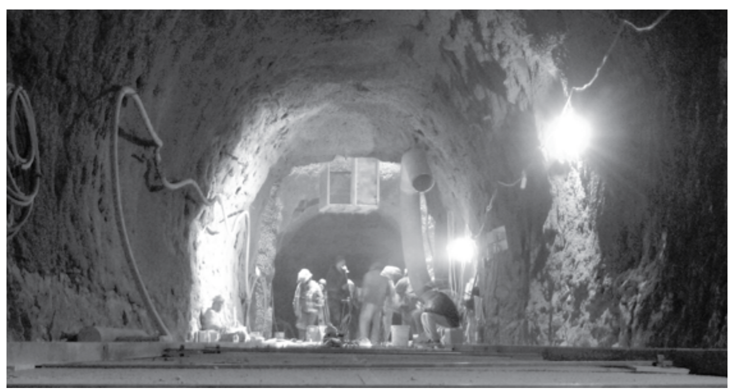
Riverbank Filtration

We have demonstrated riverbank filtration's effectiveness at our B. E. Payne plant in northeastern Jefferson County, where a collector well system has averaged 17 million gallons per day for more than nine years. The water from the collector well is as clear as the treated water at the plant.

The University of Louisville, through its Speed Engineering School, is proud to partner with Louisville Water Company (LWC) to solve urban infrastructure-related water issues, and on a national level, to work with LWC to improve the quality of water for the people of our region.

Dr. James Ramsey
President, University of Louisville





As a result of this success, we are building a network of four similar wells downstream from the B. E. Payne plant, connected by an 8,000 foot tunnel in the bedrock, 150 feet below the surface. In 2008, the project centered on boring the tunnel and sinking four caissons into the aquifer for well-screen pipes that will radiate horizontally from each caisson. The tunnel is being lined with concrete, making it, in effect, a 10-foot diameter main collecting water from the four collector wells.

This project's budget increased in 2008 after water flowed unexpectedly into the tunnel from fractures in the bedrock. Geologists estimate the water was millions of years old: tests showed that it contained no substances from modern civilization, although it did contain sulfur. Problems resulting from the fractures have been repaired and they will not impact the tunnel's concrete lining.

This well system is expected to be complete by mid-2010, at a cost of $50 million.

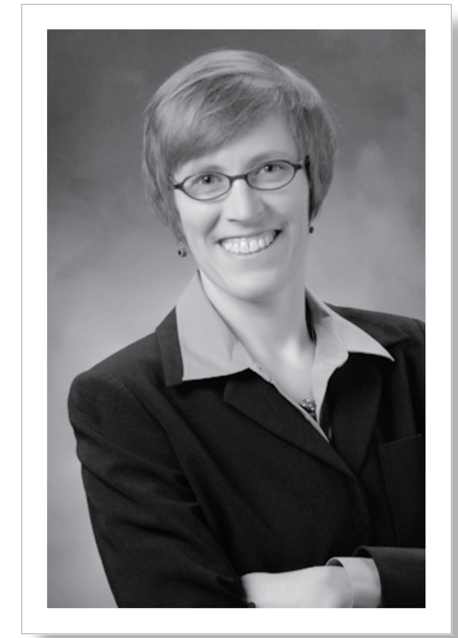
Crescent Hill Experiments

While riverbank filtration is an excellent method of providing clean water, the aquifer must be suitable for it.

We began tests in 2007 to determine if riverbank filtration and/or ozonation would be feasible at the Crescent Hill Treatment plant. By mid-2008, the tests showed that both methods are viable, and we began more extensive testing. We expect to make a decision by early 2010 on future treatment methods at the Crescent Hill plant. The budget for the testing program is $3.2 million.

Chlorine Generation

Construction began in October 2008 for a safer method to obtain chlorine, the traditional substance used to disinfect drinking water. We are building a chlorine generation facility behind the Crescent Hill plant. The new plant will allow us to manufacture a diluted solution of chlorine (in the form of sodium hypochlorite) through a process that uses water, salt and electricity. It will eliminate the need to store chlorine in rail cars, reducing a significant security and safety risk. The facility will go into operation by the summer of 2010 at a cost of $12.2 million.



Water–like laughter–is a universal language. Everyone knows what it is.

Joanna E. Haas
Executive Director, Louisville Science Center

A CHALLENGING YEAR

Two factors influenced our performance during 2008: drier-than-normal summer weather and the deepening national recession.

The dry summer weather increased the amount of water normally used in an average year, helping offset the effects of the recession. The 6.5 percent rate increase that went into effect at the beginning of the year helped our annual water revenue to exceed 2007 by 1.9 percent.

The effects of the recession became evident early in the year. While revenue and net operating income exceeded our expectations, operating expenses were over our projections.

The Weather

The year began as a wet one: total rainfall through May was 45 percent higher than average. But in June, the trend reversed: total rainfall from June through November was 38 percent less than normal. August and September combined were 70 percent drier than normal.

Year-to-year variations in summertime rainfall have a great effect on our sales. It was extremely dry in 2007, causing drought conditions across much of Kentucky and boosting our sales considerably. It was not as dry in 2008, but the dry conditions boosted sales and income above budget levels.

Two unusual events occurred in 2008 without major problems to Louisville Water Company. When the remnants of Hurricane Ike caused widespread power outages in September, our backup power supplies kept our service going without interruption. And when an earthquake shook the area in April, there was no damage to any of our facilities.

"The hands-on program offered by Louisville Water engages the students—no better way to learn. Keep up the great work!"

Jefferson County Elementary Teacher

The Economy

The downturn in the housing market actually became apparent in 2007. By mid-2008, the slowdown throughout the national and local economies impacted our operations in several areas:

- The number of miles of water mains installed to serve new developments fell to less than half the 2007 figure, and less than two-fifths of the five-year average.
- The number of building lots in new developments was only one-third the five-year average.
- Service turn-offs for non-payment of bills was 24 percent higher than average, and the highest in nearly a decade.
- Uncollectable debts were higher than budgeted, and the highest in nearly a decade.
- Additionally, the costs of chemicals, fuel and electricity continued to increase, boosting operating costs above budgeted levels.

The economic crisis in 2008 drove up bond interest rates making a new bond issue and refunding not feasible. Further, declining interest rates reduced income from invested funds.

EXPANDING OUR SERVICES

In 2008, we continued our vision to become the water supplier of choice throughout the region. Construction started on a 60-inch pipeline along Interstate 265 to supply eastern Jefferson County and position the company to provide water to Central Kentucky.

In Hardin County, we're involved with a proposal to privatize the Fort Knox water system. Hardin County Water District 1 already owns and operates the base's sanitary and storm sewer systems. In July, we partnered with the District for a joint proposal to operate the Fort Knox water system. The Army will make a decision in late 2009. In addition, we are working with Hardin County Water District No. 2 to provide wholesale water to the Elizabethtown area and eastern Hardin County.

Water is the lifeline of fighting fires. We appreciate the professionalism, reliability and dependability of Louisville Water Company.

Chief Gregory Frederick
Louisville Metro Fire

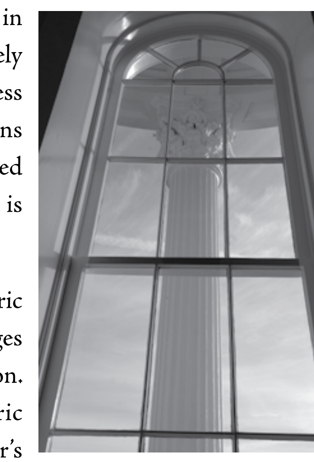
While the economy significantly impacted the amount of new water mains installed, we still added more than 20 miles of main in Bullitt, Jefferson and Oldham Counties. Most of the infrastructure supported new development; the rest made water service available to Bullitt and Oldham County residents.

In 2008, we initiated a new service that goes beyond our traditional line of business. In February, a third-party vendor, Home Services USA Repair Management Corporation, began offering our residential customers home service line insurance. This voluntary program allows residential customers the option to pay a nominal monthly fee that's included in their bill. We receive a percent of the premium. By the end of the year more than 47,000 customers had signed up for the service that assures certain plumbing repairs will be preformed at no cost to the customer.

INFRASTRUCTURE RENEWAL

Nearly a century and a half ago, our founders built structures and infrastructure to last for years. Many of our facilities are at a point where they need upgrades. In 2008, renovation and renewal projects were under way in nearly all of our major facilities.

At the Zorn Avenue pumping station, rehabilitation of the traveling screens in the 1892 intake structures were completed. The two-year project included the removal and replacement of the mechanisms, controls and electrical equipment in the tower, at a cost of approximately $4.4 million—about $700,000 less than the original budget. The screens filter the floating and large suspended debris from Ohio River water as it is drawn into the pump station.



At the end of the year, the historic Water Tower was in the final stages of a two-year, $1.6 million renovation. The tower, a National Historic Landmark and Louisville Water's corporate symbol, required major structural work and the restoration of its statues.

At the Crescent Hill Treatment plant, we completed one large rehabilitation project and initiated others. A three-year project to replace the 100-year-old slate roof on the north-south filter building was completed in the spring at a cost of $4.3 million.

We began the final design of a $43.5 million project to renovate the east filters and backwash system at the plant. Some of these filters date back to 1929. The work will take at least two years; the renovation will not only improve performance but help ensure compliance with future water quality regulations. In March, work began to rehabilitate

We see a large number of children drinking sodas when they need to drink tap water. Tap water with fluoride helps make teeth healthy and strong and improves overall general health. It is very gratifying to participate in Smile Kentucky! and help bring a smile to the children of our community.

Dr. Greg Karem, Dentist

two of the six softening basins. This project will continue through 2009. The work at Crescent Hill is part of a five-year capital improvement plan; the projects are staggered to minimize the impact on day-to-day operations.

At the B.E. Payne plant, we completed a $13.5 million renovation of the coagulation, sedimentation and softening basins. It's the first renovation of the coagulation basins since the plant went on line in the 1970's. Work on the softening basins is crucial as we prepare to bring a larger quantity of ground water into the plant from the riverbank filtration collector wells. While this water has a higher quality than Ohio River water, it is much harder.

Replacement of lead service lines increased from 460 in 2007 to 1,750 lines in 2008. We remain committed to the goal of eliminating the remaining lead service lines from our system by 2015.

A new program started in 2008 will standardize testing for fire hydrants. Jefferson County's suburban fire districts will perform annual hydrant testing as part an agreement with Louisville Water Company. When the program is fully implemented in 2009, approximately 14,000 hydrants in Jefferson County will receive an annual inspection. This partnership allows us to develop a preventive maintenance program in which each hydrant will also receive internal servicing on a 10-year cycle. Fire districts will paint each hydrant on a four-year cycle.

COMMUNITY ACTIVITIES

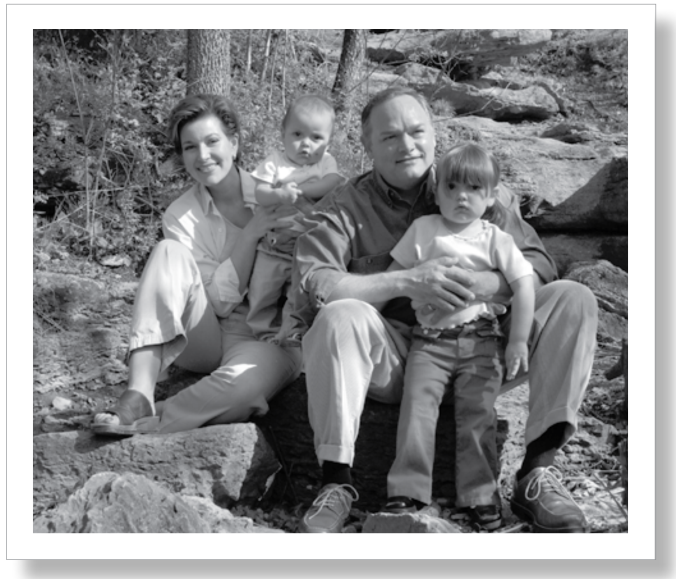
Providing safe, high quality water is the core of our business. But we impact our community with activities and fundraising that complement our mission. This includes education and health programs at schools, bottled Pure Tap for community events and financial contributions.

Education

Our education programs focus on teaching children the importance of safe drinking water and how they can impact water quality. Nearly 40,000 students at 120 schools participated in education programs in 2008. Educators work in the classroom to bring real-world examples to the curriculum; schools and community groups also tour our facilities.

By protecting the water quality in our rivers and streams, we provide a great raw product for Louisville Water Company.

Dr. Steve Henry, President, Future Fund
Former Lt. Governor and Jefferson County Commissioner
Heather French Henry, Former Miss America



- Education and improving children's oral health is at the core of Smile Kentucky! The program provided free dental screenings at 29 elementary schools in Jefferson, Bullitt, Henry, Oldham, Spencer and Trimble counties. As a result, 330 children received free treatment at the University of Louisville School of Dentistry. Smile Kentucky! is a community effort; now in its seventh year, the program has provided education programs to 90,000 children, free dental screenings to more than 25,000, and free dental treatment to more than 1,500.
- Tap into Fitness, a health and nutrition program, expanded to 10 elementary schools. Jefferson County Public Schools' nutrition department became an important partner in this program. Aegon, Zeon Chemicals, Genentech, Texas Roadhouse, the Heuser Clinic, Norton Healthcare and the Cralle Foundation also provide support.
- Adventures in Water, a three-day science program, brought 900 students to the Water Tower in May. Students participated in hands-on activities that focused on water's impact in the community. Partners included the Louisville Science Center, Louisville Zoo, Metropolitan Sewer District, American Commercial Barge Lines and the Ohio River Valley Water and Sanitation Commission.

Combined Giving

Several years ago, we decided to consolidate three major charity fund-raising drives into a Combined Giving Campaign. Two of the beneficiaries are well-known local organizations: Metro United Way and Fund for the Arts. The third, Water For People, helps create safe drinking water supplies in developing countries. Our employees contributed more than $130,000 to the combined campaign in 2008, exceeding our goal by more than $14,000.

Pure Tap Program

During the year, we provided more than 440,000 bottles of Pure Tap for public events, including Kentucky Derby Festival events, the Ironman Triathlon, the Triple Crown of Running and the Race for the Cure (of breast cancer). In addition, we provided more than 8,000 bottles of Pure Tap for hurricane evacuees housed at the Kentucky State Fairgrounds and out-of-state utility workers restoring power after the September windstorm.

We're number one!

Louisville Mayor Jerry Abramson celebrates the "Best of the Best" award with children and Tapper, our mascot.

Not all of the bottles we provide are filled. In 2008, we gave 200,000 empty 16-ounce bottles to churches, schools, sports groups and customers. These bottles are meant to be filled with tap water, washed and reused.

AWARDS

While the award for the best-tasting tap water in the nation was a proud achievement, our company and employees were recognized for outstanding performance in other areas.

Company

- American Water Works Association Kentucky/Tennessee Section "Best of the Best" Award, making us eligible to enter the national contest in 2009.
- Kentuckiana Minority Business Council's Agavé Achievement Award
- Kentuckiana Minority Business Council's Million Dollar Club —for spending a million dollars with minority-and women-owned businesses.

Individuals

- **Ron Green:** Kentuckiana Minority Business Council's Impact Award.
- **Kent Horrell:** Inducted into the ORSANCO Registry of Distinguished Water Operators.
- **Billy Meeks:** President of American Federation of State, County and Municipal Employees Local 1683: 2008 Kentucky Labor-Management Award.
- **Kelley Dearing Smith:** Mayor's Healthy Hometown Movement Leadership Award.
- **Daniel Tegene:** American Society of Civil Engineers Kentucky Section's 2008 Outstanding Engineer Award.

CONTENTS

Sale of Water Revenue and Analysis 12

Independent Auditors' Report 14

Management's Discussion and Analysis 15

Financial Statements

Balance Sheets 21

Statements of Revenues, Expenses and Changes in Net Assets 23

Statements of Cash Flows 24

Notes to Financial Statements 26

Supplemental Information

Schedule of Investments 35

Summarized Schedule of Bond Issues 36

Schedule of Outstanding Bond Indebtedness and Annual Debt Service Requirements 2006 Series Bonds 37

Schedule of Outstanding Bond Indebtedness and Annual Debt Service Requirements 2001 Series Bonds 38

Schedule of Outstanding Bond Indebtedness and Annual Debt Service Requirements 2000 Series Bonds 38

Schedules of Operation and Maintenance Expenses and Taxes 39

Corporate Information 40

SALE OF WATER REVENUE ANALYSIS

Louisville Water Company

	Number of Customers through Dec 31,		Consumption - YTD (1,000 Gallons)		Revenue - YTD		Revenue (1,000 Gallons)	
	2008	2007	2008	2007	2008	2007	2008	2007
General Pressure Services								
Residential	150,029	151,572	9,237,963	9,716,456	33,469,474	32,320,448	3.62	3.33
Commercial	17,868	17,429	11,070,790	11,510,747	31,188,617	30,383,998	2.82	2.64
Industrial	308	312	3,792,616	4,122,960	8,112,577	8,120,722	2.14	1.97
Fire Services and Fire Hydrants	3,247	3,191	29,719	23,663	1,567,976	1,443,144		
Public Fire Hydrants	12,624	12,475	0	0	4,976,769	4,613,514		
Municipal	600	600	1,063,257	1,425,366	2,855,036	3,312,652	2.69	2.32
Wholesale	1	1	2,178	8,475	5,142	12,876		
Total General Pressure Services	**184,677**	**185,580**	**25,196,523**	**26,807,667**	**82,175,591**	**80,207,356**	**3.02**	**2.77**
Elevated Pressure Services								
Residential	95,620	94,573	7,152,067	7,763,466	25,363,425	25,770,976	3.55	3.32
Commercial	6,385	6,075	4,435,301	4,619,471	13,685,409	13,441,032	3.09	2.91
Industrial	10	9	28,872	50,129	90,282	76,380	3.13	1.52
Fire Services and Fire Hydrants	1,632	1,586	4,910	2,939	809,072	735,895		
Public Fire Hydrants	8,496	8,334	0	0	3,344,469	3,071,657		
Municipal	34	35	76,343	63,748	228,319	172,541	2.99	2.71
Wholesale	5	5	1,815,597	1,764,297	3,134,792	3,003,612	1.73	1.70
Total Elevated Services	**112,182**	**110,617**	**13,513,090**	**14,264,050**	**46,655,768**	**46,272,094**	**3.15**	**2.98**
Totals								
Residential	245,649	246,145	16,390,030	17,479,922	58,832,899	58,091,424	3.59	3.32
Commercial	24,253	23,504	15,506,091	16,130,218	44,874,026	43,825,030	2.89	2.72
Industrial	318	321	3,821,488	4,173,089	8,202,858	8,197,102	2.15	1.96
Fire Services and Fire Hydrants	4,879	4,777	34,629	26,602	2,377,049	2,179,040		
Public Fire Hydrants	21,120	20,809	0	0	8,321,238	7,685,172		
Municipal	634	635	1,139,600	1,489,114	3,083,355	3,485,194	2.71	2.34
Wholesale	6	6	1,817,775	1,772,772	3,139,934	3,016,488	1.73	1.70
Grand Totals	**296,859**	**296,197**	**38,709,613**	**41,071,717**	**128,831,359**	**126,479,450**	**3.05**	**2.84**

All categories, excluding Wholesale, are services active in the last 30 days.

INDEPENDENT AUDITORS' REPORT

Board of Water Works
Louisville Water Company
Louisville, Kentucky

We have audited the accompanying balance sheets of the Louisville Water Company as of December 31, 2008 and 2007, and related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Louisville Water Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisville Water Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 15 through 20 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Louisville Water Company's basic financial statements. The supplemental information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Strothman & Company PSC

Louisville, Kentucky
March 31, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Louisville Water Company's financial performance provides an overview of the Company's financial activities for the fiscal year ended December 31, 2008 as compared with the prior year. Please read it in conjunction with the President's Message at the front of this report and the Company's financial statements which follow this section.

Overview of the Financial Statements

This annual financial report consists of three parts: Management's Discussion and Analysis, Financial Statements, and Supplemental Information. The Financial Statements of the Company report information about the Company using accounting methods similar to those used by private sector water utility companies, except for the reporting of contributions in aid of construction, equity capital and retained earnings. For financial reporting purposes, the Company is considered a Special-purpose Government Engaged Only in Business-type Activities. These statements offer short and long term financial information about its activities.

The Balance Sheet includes all of the Company's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Company creditors (liabilities). It also provides the basis for evaluating the capital structure of the Company and assessing the liquidity and financial flexibility of the Company.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the Company's operations in meeting financial objectives over the past year and can be used to determine whether the Company has successfully recovered all of its costs through its water rates and other charges, has earned a profit, and has maintained credit-worthiness.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Company's cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides information on the sources and uses of cash and the changes in cash balances during the year.

Financial Highlights

- Total Net Assets increased by $33,674,272 or 4.9%, from $683,483,508 in 2007 to $717,157,780 in 2008, primarily due to increases in Utility Plant that were financed from cash generated from operations, contributions in aid of construction, and draws from cash reserves.
- Operating Revenues increased by $4,686,873 or 3.5%, from $132,056,330 in 2007 to $136,743,203 in 2008, due to a 6.5% increase in water rates effective January 1, 2008. Water sales in 2008 of 38.7 billion gallons were below 2007, which was the highest amount since 1999 and the second highest amount in the history of Louisville Water Company.
- Operating Expenses increased by $4,311,727 or 4.8%, from $89,151,682 in 2007 to $93,463,409 in 2008, due to increases in Operation and Maintenance Expenses, Depreciation Expenses, and Water Service Provided in Lieu of Taxes.
- Net Non-Operating Expenses increased by $1,759,653 or 77.2% from $2,278,127 in 2007 to $4,037,780 in 2008. Interest earned on investments declined significantly due to declining interest rates, specifically on collateralized deposits, partially offset by increased capitalized interest expense for construction work-in-progress due to an increase in capital projects not yet complete.
- Net Income before dividends decreased by $1,384,507 or 3.4%, from $40,626,521 in 2007 to $39,242,014 in 2008, due to increases in operating expenses and net non-operating expenses only partially offset by increases in operating revenue.
- Dividends Paid and Payable decreased by $801,202 or 4.4%, from $18,331,412 in 2007 to $17,530,210 in 2008.

Statement of Net Assets

Total Net Assets increased by $33,674,272 or 4.9% in 2008 (see Figure 1). The largest portion of Net Assets is Net Utility Plant, which increased by $43,674,136 in 2008 through capital improvements. The capital improvements were funded by cash generated from operations, draws from cash reserves, and by Contributions in Aid of Construction from developers, customers, and governmental agencies. Other Property and Investments decreased by $11,452,300 due to requisitions from cash reserves. Deposits made to the Infrastructure Replacement Reserve from operating revenues in 2008 were $1,500,000 following deposits of $2,450,000 in 2007. Current Assets decreased by $3,067,199 primarily due to lower amounts of cash and temporary investments and accounts receivable. Current Liabilities increased by $5,185,415 due to higher accounts payable and dividends payable and the current portion of bonds payable only partially offset by lower sewer and customer deposits payable. Long-term Liabilities decreased by $9,705,050 due to principal payments in the amount of $2,420,000 on the Series 2000 Bonds, $4,380,000 on the Series 2001 Bonds, and $1,725,000 on the Series 2006 Bonds made during the year. Long-term debt is discussed in more detail in the section titled Debt Administration.

FIGURE 1 - CONDENSED STATEMENT OF NET ASSETS

	2008	2007	DIFFERENCE	PERCENT
Current Assets	$ 39,011,818	$ 42,079,017	$ (3,067,199)	(7.3%)
Other Property and Investments	69,198,998	80,651,298	(11,452,300)	(14.2%)
Net Utility Plant	828,016,120	784,341,984	43,674,136	5.6%
Total Assets	936,226,936	907,072,299	29,154,637	3.2%
Current Liabilities	42,643,842	37,458,427	5,185,415	13.8%
Long Term Liabilities	176,425,314	186,130,364	(9,705,050)	(5.2%)
Total Net Assets	$ 717,157,780	$ 683,483,508	$ 33,674,272	4.9%

Statement of Revenues, Expenses and Changes in Net Assets

Operating Revenues increased by $4,686,873 or 3.5% in 2008 (see Figure 2). Total water sales decreased by 2,362 million gallons or 5.8% in 2008. The decline relates to unusually high consumption in 2007 due to the very dry summer. Consumption in 2007 was the second highest sales year in the history of Louisville Water Company. The increase in operating revenues was due to a 6.5% increase in water rates effective January 1, 2008, coupled with two new service fees implemented in 2008.

Operating Expenses increased by $4,311,727 or 4.8% in 2008. The key components of operating expenses are: Operation and Maintenance Expenses, Depreciation and Amortization Expenses, Taxes and Water Service Provided in Lieu of Taxes, and Loss on Disposition of Assets. Operations and Maintenance Expenses increased by $2,652,044 due to higher power rates, increased chemical costs, and higher contractual services costs. Depreciation and Amortization Expense increased by $1,146,526 due to increased investments in utility plant. Taxes and Water Service in Lieu of Taxes increased by $204,845 due to increased water rates and fire hydrant charges. Loss recognized on Disposition of Assets increased by $308,312, primarily due to a retirement of undepreciated assets.

Net Non-Operating Expenses (non-operating expenses less non-operating income) increased by $1,759,653 or 77.2% in 2008. Interest earned on investments declined significantly in 2008 only partially offset with increased interest expense that was capitalized for construction work-in-progress.

Net Income before Distributions and Contributions decreased by $1,384,507 or 3.4% in 2008 due to increases in Operating and Net Non-Operating expenses, which were only partially offset by increases in Operating Revenue. The formula for computing the dividend is established as a covenant in the Series 1992 Bond Resolution (the Master Bond Resolution). The dividend is calculated as sixty percent of net income after deducting bond principal payments and certain other items. Dividends Paid and Payable decreased by $801,202 or 4.4%, from $18,331,412 to $17,530,210.

Contributions in Aid of Construction are composed of: pipeline contributions from developers for water main extensions and from governmental agencies and developers for water main relocations; service installation fees from customers; apportionment warrant fees and tapping fees from customers to extend water service to unserved areas; and system development charges from customers for growth-related expansion. The level of capital contributions varies from year-to-year and is affected by economic cycles. These types of projects are fully funded or nearly-fully funded by outside entities in advance of construction. Contributions in Aid of Construction decreased by $7,754,435 or 39.3% over the previous year due to the significant downturn in the economy.

FIGURE 2 - CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	2008	2007	DIFFERENCE	PERCENT
Operating Revenue	$ 136,743,203	$ 132,056,330	$ 4,686,873	3.5%
Operating Expenses	(93,463,409)	(89,151,682)	4,311,727	4.8%
Net Operating Revenue	43,279,794	42,904,648	375,146	0.9%
Net Non-Operating Expenses	(4,037,780)	(2,278,127)	1,759,653	77.2%
Net Income Before Distributions and Contributions	39,242,014	40,626,521	(1,384,507)	(3.4%)
Dividends Paid and Payable	(17,530,210)	(18,331,412)	(801,202)	(4.4%)
Contributions in Aid of Construction	11,962,468	19,716,903	(7,754,435)	(39.3%)
Increase in Net Assets	33,674,272	42,012,012	(8,337,740)	(19.8%)
Net Assets, Beginning of Year	683,483,508	641,471,496	42,012,012	6.5%
Net Assets, End of Year	$ 717,157,780	$ 683,483,508	$ 33,674,272	4.9%

Statement of Cash Flows

Cash and Temporary Investments at the end of 2008 were $11,701,410 or 18.1% lower than at the end of 2007 (see Figure 3). Cash from Operating Activities increased by $6,616,572 due to increased amounts received from customers and decreased amounts paid to suppliers and others. Cash from Capital and Related Financing Activities decreased by $14,977,986 which is primarily related to increased acquisition and construction of utility plant, decrease in contributions in aid of construction, and a partial offset of decreased dividends paid of $1,961,108 from 2007 to 2008. Cash from Investing Activities decreased by $1,824,332 due to a decrease in interest income received on temporary cash and investments.

FIGURE 3 - CONDENSED STATEMENT OF CASH FLOWS

	2008	2007	DIFFERENCE	PERCENT
Cash from Operating Activities	$ 73,614,060	$ 66,997,488	$ 6,616,572	9.9%
Cash from Capital and Related Financing Activities	(89,593,379)	(74,615,393)	(14,977,986)	(20.1%)
Cash from Investing Activities	13,386,923	15,211,255	(1,824,332)	(12.0%)
Change in Cash and Temporary Investments	(2,592,396)	7,593,351	(10,185,747)	(134.1%)
Cash and Temporary Investments, Beginning of Year	14,293,806	6,700,455	7,593,351	113.3%
Cash and Temporary Investments, End of Year	$ 11,701,410	$ 14,293,806	$ (2,592,396)	(18.1%)

In addition to the amounts held in Cash and Temporary Investments, Louisville Water Company also holds funds for capital improvements in reserves totaling $53,196,697 under Other Property and Investments on the Statement of Net Assets.

Capital Assets

The Company uses a five-year Capital Improvements Plan (CIP) that is updated annually. Development of the CIP is based on the Company's current 20 year Facilities Plan and recommendations from the annual inspection of facilities. The CIP also identifies anticipated capital expenditures for a total of 10 years. The Company's current Facilities Plan covers the years from 2002 through 2021. The Company expects to invest $390,758,707 in improvements during 2009-2013. The key areas of capital investment for 2009 are: renovation of water treatment plant facilities, growth related improvements for storage and boosted pressure systems, renewal of buried infrastructure, advanced treatment technologies, and transmission and distribution system improvements.

Debt Administration

At December 31, 2008, the Company had $67,070,000 principal outstanding for the Series 2000 Bonds; and $31,185,000 principal outstanding for the Series 2001 Bonds; and $81,620,000 principal outstanding for the Series 2006 Bonds; for a total of $179,875,000. As shown in Figure 4, the debt service coverage of 2.70 times in 2008 is favorable to the statutory and bond resolution limits of 1.3 times. The Series 2000 Bonds are insured, callable beginning in 2010, and carry a Aaa rating from Moody's Investors Service and a AAA rating from Standard & Poor's Corporation. The Series 2001 Bonds are not insured, but are also callable beginning in 2010, and carry a Aa1 rating from Moody's and a AA+ rating from Standard & Poor's. The Series 2006 Bonds have a combination of insured and uninsured maturities, are callable beginning in 2016, and carry ratings of Aaa/Aa1 from Moody's and ratings of AAA/AA+ from Standard & Poor's.

FIGURE 4 - DEBT SERVICE COVERAGE

	2008	2007	DIFFERENCE	PERCENT
Income Available for Debt Service	$ 47,486,030	$ 49,364,969	$ (1,878,939)	(3.8%)
Current Aggregate Net Debt Service	$ 17,653,102	$ 16,445,682	$ 1,207,420	7.3%
Coverage Times	2.69	3.00	(.31)	(10.3%)

The Company's debt rating is among the very highest in the United States for water utility revenue bonds.

Economic Factors and Next Year's Budgets and Rates

Management believes that the 2009 Budget adequately addresses all revenue requirements. Water rates will be increased for retail water service by 5.5% for water service on and after January 1, 2009. Water rates for wholesale water service will not change in 2009. Future rate changes for three wholesale customers are subject to approval by the Kentucky Public Service Commission.

Management believes that the most challenging economic issues facing Louisville Water Company in 2009 will be the current significant downturn in the global economy, continued decrease in water consumption per account due to conservation, low flow plumbing fixtures, and the significant loss of industrial sales. Management plans to pursue strategies to assure steady top-line revenue growth and profitability through: increasing water sales within the boundaries of existing infrastructure; pursuing traditional growth opportunities for wholesale and retail service; pursuing non-traditional growth opportunities through mergers, acquisitions, joint ventures and management contracts; and pursuing new or expanded related business opportunities that capitalize on our existing competencies, expertise and strengths. Management also plans to consider a bond issue in the fourth quarter of 2009 to advance refund all or a portion of the Series 2000 Bonds to achieve a lower interest rate on outstanding debt as well as to capture favorable long-term rates on capital funds that will be needed for the long-term capital improvement plan.

Computation of Stockholder's Equity

Stockholder's equity for Louisville Water Company is no longer published in the audited financial statements following adoption of GASB 34 in 2002. Using the Common Stock, Retained Earnings, and Total Equity Capital reported in the 2001 audited financial statements and using Income before Distributions and Contributions less Dividends Paid and Payable from audited financial statements for subsequent years, Figure 5 describes management's computation of stockholder's equity for the years ending December 31, 2008 and 2007.

FIGURE 5 - COMPUTATION OF STOCKHOLDER'S EQUITY

	2008	2007	Difference	Percent
Total Equity Capital, Beginning of Year	$ 384,916,463	$ 362,621,354	$ 22,295,106	6.1%
Plus Income before Distributions and Contributions	39,242,014	40,626,521	(1,384,507)	(3.4%)
Less Dividends Paid and Payable	17,530,210	18,331,412	(801,202)	(4.4%)
Total Equity Capital, End of Year	406,628,267	384,916,463	21,711,804	5.6%
Less Cumulative Deposits to Infrastructure Replacement Reserve	40,053,333	38,553,333	1,500,000	3.9%
Stockholders Equity Eligible for Return Computation	$ 366,574,934	$ 346,363,130	$ 20,211,804	5.8%

The net income for 2008 available for the return on equity computation was $37,742,014 based on Income before Distributions and Contributions of $39,242,014 less current year Deposits to the Infrastructure Reserve account of $1,500,000. The return on equity earned by Louisville Water Company in 2008 was 10.30% which compares favorably to the return on equity target for 2008 of 9.70% and slightly lower than the return on equity earned for 2007 of 10.84%.

Comparative Analysis of Financial Results

To optimize long-term financial viability, Louisville Water Company management plans for and monitors five groups of financial metrics: liquidity, capitalization, coverage, profitability and dividend payout. Figure 6 below describes management's computation of certain financial ratios within each of these groups of metrics.

FIGURE 6 - COMPARATIVE ANALYSIS OF FINANCIAL RESULTS

LIQUIDITY	ACCESS READILY AVAILABLE ASSETS TO MEET NEAR-TERM OBLIGATIONS	2009 BUDGET	2008	2007	TARGET
Days of Funded Operations	(Cash+Unrestricted Fund Reserves)/ (O&M Expense/365)	239	413	519	> 200
Days of Cash Funded Operations	Cash/(O&M Expense/365)	60	74	95	> 60

CAPITALIZATION	RELIANCE ON DEBT FINANCING FOR CAPITAL INVESTMENTS	2009 BUDGET	2008	2007	TARGET
Long Term Debt to Net Utility Plant	Long Term Debt/ Net Utility Plant	19.65%	21.72%	24.02%	<35%
Debt to Capitalization	Long Term Debt/(Long Term Debt + Unrestricted Stock Equity)	30.57%	32.92%	35.23%	

COVERAGE	CAPACITY TO MAKE DEBT SERVICE PAYMENTS	2009 BUDGET	2008	2007	TARGET
Debt Service Coverage	EBIT/Debt Service EBIT/Maximum Aggregate Debt Service	Current 2.58 Max Year 2.10	Current 2.69 Max Year 2.63	Current 3.00 Max Year 2.73	Target >2.0 Minimum >1.3
Debt Service Safety Margin	(O&M Expense+Debt Service)/ (Operating Revenue+Non-Operating Revenue)	46.04%	46.24%	48.24%	>30%
EBITDA/ Interest Expense	EBITDA/Interest Expense	8.63%	8.70%	8.18%	>5.0

PROFITABILITY	PROFITABILITY OF THE COMPANY	2009 BUDGET	2008	2007	TARGET
Return on Equity	(Net Income-IRR-Construction Interest)/ Stockholder Equity Eligible for Return	9.74%	10.30%	10.84%	2006 >9.48% 2007 >9.61% 2008 >9.70%
Return on Assets	(Net Income-IRR-Construction Interest)/ Total Assets	3.90%	4.03%	4.14%	
Return on Net Utility Plant	(Net Income-IRR-Construction Interest)/ Net Utility Plant	4.35%	4.56%	4.79%	
Net Profit Margin	(Net Income-IRR-Construction Interest)/ Operating Revenue	26.11%	27.60%	28.43%	
Operating Margin	EBITDA/Operating Revenue	58.49%	58.05%	58.57%	

DIVIDEND PAYOUT	MEASUREMENT OF DISTRIBUTION OF PROFIT AS A DIVIDEND	2009 BUDGET	2008	2007
Dividend Payout	Dividends Declared/ (Net Income-IRR-Construction Interest)	45.19%	46.45%	48.82%
Total Transfers	(Water in Lieu of Taxes+Dividends)/ Operating Revenue	20.02%	21.16%	22.37%
Dividend Yield	Dividends Declared/ Stockholder Equity Eligible for Return	4.40%	4.78%	5.29%

Contacting the Company's Financial Management

This financial report is designed to provide our citizens, ratepayers, customers, creditors and stockholder with a general overview of the Company's finances and to show the Company's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's Office at Louisville Water Company, 550 South Third Street, Louisville, KY, 40202.

FINANCIAL INFORMATION

Balance Sheets

Louisville Water Company

	DECEMBER 31 2008	2007
Assets		
Current Assets		
Cash and temporary investments	$ 11,701,410	$ 14,293,806
Accounts receivable	17,194,738	18,655,863
Contracts receivable, current portion	334,803	283,477
Materials and supplies	7,491,031	6,472,068
Bond service account - Series 2000	522,932	549,578
Bond service account - Series 2001	633,682	669,800
Bond service account - Series 2006	545,556	487,277
Other current assets	506,974	634,953
Accrued interest receivable	80,692	32,195
Total Current Assets	39,011,818	42,079,017
Utility plant, net of accumulated depreciation	828,016,120	784,341,984
Noncurrent Assets		
Non-utility property	198,557	196,310
Contracts receivable	2,315,592	2,416,171
Reserves	60,868,794	71,372,258
Retirement plan past service costs, net	497,937	711,338
Unamortized debt discount and expense	1,534,012	1,634,165
Preliminary engineering charges	442,859	77,944
Prepaid regulatory assets	3,341,247	4,243,112
Total Noncurrent Assets	69,198,998	80,651,298
Total Assets	$ 936,226,936	$ 907,072,299

Continued

Balance Sheets - continued

Louisville Water Company

	DECEMBER 31 2008	2007
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 10,206,142	$ 5,815,157
Sewer collections (contra)	11,427,444	12,416,465
Customer deposits	5,075,143	5,782,296
Tax collections payable	635,280	653,482
Accrued interest payable	1,098,674	1,147,061
Dividend payable	1,455,710	147,902
Contracts payable, retainage percentage	356,732	173,325
Accrued payroll	537,347	385,634
Accrued vacation and sick leave	882,623	873,906
Insurance reserve	1,658,747	1,483,199
Bonds and notes payable, current portion	9,310,000	8,580,000
Total Current Liabilities	42,643,842	37,458,427
Long-Term Liabilities		
Customer advances for construction	3,576,501	3,831,949
Unamortized debt premium	2,283,813	2,423,415
Bond payable, less current portion	170,565,000	179,875,000
Total Long-Term Liabilities	176,425,314	186,130,364
Total Liabilities	219,069,156	223,588,791
Net Assets		
Unrestricted	6,445,696	14,517,611
Invested in capital assets, net of related debt	648,141,120	595,886,984
Restricted, expendable	62,570,964	73,078,913
Total Net Assets	717,157,780	683,483,508
Total Liabilities and Net Assets	$ 936,226,936	$ 907,072,299

See Notes to Financial Statements

Statements of Revenues, Expenses and Changes In Net Assets

Louisville Water Company

	YEARS ENDED DECEMBER 31 2008	2007
Revenues		
Operating revenues	$ 136,743,203	$ 132,056,330
Operating Expenses		
Operation and maintenance expenses	57,365,972	54,713,928
Depreciation	22,315,229	21,428,977
Amortization	844,687	584,413
Taxes and water service provided in lieu of taxes	11,411,409	11,206,564
Loss from sale and salvage of retired assets	1,526,112	1,217,800
Total Operating Expenses	93,463,409	89,151,682
Net Operating Revenue	43,279,794	42,904,648
Non-Operating Income (Expense)		
Interest income	2,346,515	5,013,579
Interest expense	(6,732,589)	(7,572,929)
Other income	348,294	281,223
Net Non-Operating Expense	(4,037,780)	(2,278,127)
Income Before Distributions and Contributions	39,242,014	40,626,521
Distributions and Contributions		
Dividends paid and payable	(17,530,210)	(18,331,412)
Contributions in aid of construction	11,962,468	19,716,903
Total Distributions and Contributions	(5,567,742)	1,385,491
Increase in Net Assets	33,674,272	42,012,012
Net Assets, beginning of year	683,483,508	641,471,496
Net Assets, end of year	$ 717,157,780	$ 683,483,508

See Notes to Financial Statements

Statements of Cash Flows

Louisville Water Company

	YEARS ENDED DECEMBER 31 2008	2007
Cash Flows from Operating Activities		
Cash received from customers	$ 123,926,734	$ 120,320,395
Cash paid to suppliers and others	(26,444,858)	(30,444,218)
Cash paid to employees for services	(23,867,816)	(22,878,689)
Net Cash Provided By Operating Activities	73,614,060	66,997,488
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of utility plant	(69,349,858)	(62,357,775)
Contributions in aid of construction	11,962,468	19,716,903
Customer advances for construction	(255,448)	876,840
Preliminary engineering charges	(364,915)	74,975
Principal paid	(8,580,000)	(7,105,000)
Interest paid	(6,780,977)	(7,612,099)
Dividends paid	(16,222,402)	(18,183,510)
Non-utility property reduction	(2,247)	(25,727)
Net Cash Used In Capital and Related Financing Activities	(89,593,379)	(74,615,393)
Cash Flows from Investing Activities		
Reserved funds	10,503,462	9,909,009
Restricted funds	4,485	482,233
Contracts	49,253	41,347
Contracts, retainage percentage	183,408	(624,600)
Interest received	2,298,021	5,122,047
Other non-operating expense	348,294	281,220
Net Cash Provided by Investing Activities	13,386,923	15,211,256
Net Change in Cash and Temporary Investments	(2,592,396)	7,593,351
Cash and Temporary Investments, Beginning of Year	14,293,806	6,700,455
Cash and Temporary Investments, End of Year	$ 11,701,410	$ 14,293,806

Continued

Statements of Cash Flows – continued

Louisville Water Company

	YEARS ENDED DECEMBER 31 2008	2007
Reconciliation of Net Operating Revenue to Net Cash Provided By Operating Activities		
Net operating revenue	$43,279,794	$ 42,904,648
Adjustments to reconcile net operating revenue to net cash provided by operating activities		
Depreciation	23,265,474	22,276,708
Amortization	844,687	584,413
Amortization of retirement plan past service costs	213,401	213,401
Loss from sale and salvage of retired assets	1,526,111	1,217,800
(Increase) decrease in cash due to changes in current assets and liabilities		
Accounts receivable	1,461,126	(3,134,423)
Materials and supplies	(1,018,964)	418,677
Other current assets	127,978	809,350
Other deferred charges	901,866	33,697
Accounts payable	4,390,986	370,835
Accounts payable, sewer collections	(989,021)	2,281,813
Customer deposits	(707,153)	(1,133,662)
Tax collections payable	(18,202)	15,278
Accrued vacation and sick leave	8,717	(20,638)
Accrued payroll	151,713	75,458
Insurance reserve	175,547	84,133
Net Cash Provided By Operating Activities	$73,614,060	$66,997,488

See Notes to Financial Statements

Louisville Water Company
December 31, 2008 and 2007

NOTE 1 - Significant Accounting Policies

Description of the Business: Louisville Water Company (the "Company") is a provider of water and related services to residential, commercial, industrial, fire and wholesale consumers in Jefferson, Bullitt and Oldham Counties. The Company is wholly owned by Louisville Jefferson County Metro Government ("Metro Government") and therefore follows Governmental Accounting Standards.

Basis of Presentation: The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"). The Company has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The financial statements include the accounts of Louisville Water Company and have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The Company is an Enterprise Fund and reports as a Business Type Activity ("BTA"). BTAs are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

The Company classifies resources for accounting and reporting purposes into the following net asset categories:

- Invested in capital assets, net of related debt:
  Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
  Nonexpendable - Net assets subjected to externally imposed stipulations that they be maintained permanently by the Company.

  Expendable - Net assets whose use by the Company is subject to externally imposed stipulations that can be fulfilled by actions of the Company pursuant to those stipulations or that expire by the passage of time.
- Unrestricted:
  Net assets whose use by the Company is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Water Works or may otherwise be limited by contractual agreements with outside parties.

Method of Accounting: The Company's accounting policies conform to accounting principles generally accepted in the United States of America for water utilities. Although the Company is not subject to regulation, the accounts are maintained in accordance with the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners, except with respect to the treatment of gains and losses from the retirement or disposition of utility plant. The Company recognizes gain or loss, including cost of removal, upon the retirement or disposition of utility plant rather than the transfer of cost to accumulated depreciation, as provided by the National Association of Regulatory Utility Commissioners.

Prepaid Regulatory Assets: The Company adopted Financial Accounting Standard No. 71 "*Accounting for the Effects of Certain Types of Regulation*" effective January 2006 and is currently amortizing development costs of $3,186,000 over five years beginning in 2006 and abandoned plant assets of $3,593,782 over eight years beginning in 2007.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Utility Plant: Utility plant is stated at cost of acquisition or construction, including certain indirect costs. The Company applies the straight-line method of depreciation to the estimated useful lives of the various classes of depreciable property. The estimated useful lives of some significant asset categories are as follows:

Buildings	50 to 100 years
Pipelines	65 to 100 years
Fire hydrants	50 years
Services	40 years
Meters	15 years
Equipment	5 to 10 years
Trucks and autos	5 years

Depreciation expense for 2008 was $23,265,474 of which $950,245 was allocated to other operating expenses. Depreciation expense for 2007 was $22,276,708 of which $847,731 was allocated to other operating expenses.

Capitalized Interest: The Company follows the practice of capitalizing interest during construction on capital projects. Interest in the amount of $2,410,202 and $1,930,031 was capitalized during 2008 and 2007, respectively.

Revenue: Revenue is recognized in the period in which billings are rendered to consumers. The Company does not accrue revenue for water delivered but not billed.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is established based on historical collection experience and a review of the current status of existing receivables.

Materials and Supplies: Materials and supplies inventories are stated at the average cost.

Statements of Cash Flows: For purposes of the statements of cash flows, the Company considers all highly liquid investments purchased with a maturity of three months or less to be temporary investments.

Accrued Vacation and Sick Leave: Employees' vested and accumulated sick leave is recorded as a liability on the balance sheets. Sick leave was $882,623 at December 31, 2008, and $873,906 at December 31, 2007. Vacation time does not carry over from year-to-year and must be used by December 31st of the year in which it is awarded or purchased.

Customer Deposits: The Company has implemented a security deposit policy for all customers applying for residential, commercial or industrial water service who: (i) have not had an account with the Louisville Water Company for three consecutive years; or (ii) have had a previous account in bad debt or bankruptcy status; or (iii) have had a service disconnected due to non-payment within the last three years of service. The Company refunds the security deposit when: (i) a customer closes the account; or (ii) the customer has paid their bill in a timely manner for three consecutive years. Total security deposits at December 31, 2008 and 2007 were $2,295,515 and $1,997,745, respectively. Customer deposits are included as current liabilities on the balance sheets.

Customer Deposits and Advances for Construction: The Company requires customers to make a deposit for the cost of construction of pipelines and special services. Deposits are refundable to the extent the deposit is in excess of the construction cost. These deposits for construction are reflected as a current liability until the completion of the project. The customer advance accounts reflect the anticipated long-term liability for refunding construction costs based on future new service installations within certain time limits up to 20 years. Once the refund period has expired, any balance is transferred to net assets as a contribution in aid of construction.

Investment Securities: Investments are reported at fair value with gains and losses included in the statements of revenues, expenses and changes in net assets. Gains or losses on dispositions are determined using the specific identification method.

Union Employees: The Company has numerous employees who are covered by a collective bargaining agreement. At December 31, 2008, approximately 47% of the Company's full-time employees were covered by a collective bargaining agreement. The existing agreement expired January 31, 2006 and was renegotiated for five years, expiring January 31, 2011, and ratified on January 31, 2006.

Taxes: The Company, by virtue of its ownership by Metro Government, is exempt from taxation by federal, state and local taxing authorities. However, the Company is liable for certain other taxes and provides water and fire services in lieu of taxes to Metro Government. Tax expense, which includes water and fire services in lieu of taxes for December 31, 2008 and 2007, was $11,411,409 and $11,206,564, respectively.

Amortization: Amortization of bond discounts, expenses, and premiums are amortized over the life of the bonds.

NOTE 2- Accounts Receivable

Accounts receivable include:

	YEAR ENDED DECEMBER 31 2008	2007
Water	$ 5,826,522	$ 5,771,250
Sewer (contra)	10,551,117	10,897,504
Other	1,420,328	2,202,609
Allowance for uncollectable accounts	(603,229)	(215,500)
	$ 17,194,738	$18,655,863

NOTE 3 - 2006 Bond Issue Resolution Funds

Bond Reserve Account: The Master Bond Resolution requires that a bond reserve account be established at one-half of the highest future annual maximum aggregate net bond service amount of $18,089,390 to be paid in 2011. The fund is to be used to pay maturing bonds and interest in the event funds in the Bond Service Account are not sufficient. Otherwise, funds may not be withdrawn until the bond issue is paid in full. However, the income earned on investments may be transferred to the Bond Service Account. The 2006 reserve is invested in mutual funds and is stated at fair value.

Depreciation Fund: The Series 2006 Bond Resolution authorizing the Bond Issue of 2006 requires the Company to maintain the depreciation fund in the same manner as required for the 2001 series (refunding 1992) bond issue (see Note 4).

Bond Service Account: Except to the extent that the interest and principal are to be paid from other available sources, the Company is required to deposit monthly, into the Trustee's Bond Service Account, one-sixth of the amount of the next succeeding interest payment on the 2006 Bonds outstanding and one-twelfth of the next maturing principal of those bonds. The account is invested in a government obligation mutual fund and is stated at fair value.

NOTE 4 - 2001 Bond Issue Resolution Funds

Bond Reserve Account: The Master Bond Resolution requires that a bond reserve account be established at one-half of the highest future annual maximum aggregate net bond service of $18,089,390 to be paid in 2011. The fund is to be used to pay maturing bonds and interest in the event funds in the Bond Service Account are not sufficient. Otherwise, funds may not be withdrawn until the bond issue is paid in full. However, the income earned on investments may be transferred to the Bond Service Account. The 2001 reserve is invested in U. S. Treasury Bonds and is stated at fair value.

Depreciation Fund: The Master Bond Resolution requires the Company to make monthly deposits of an amount equal to one-twelfth of an amount not less than the annual depreciation charges into a depreciation fund. The balance includes interest income earned and the gain on sale of property and is available to fund capital improvements to the water system. The individual fund accounts are collateralized by pledged assets, guaranteed under a U.S. Treasury program, insured by the FDIC or invested in a sweep account. This fund and the funding requirements are also included in the 2000 and 2006 bond issues (see Note 3 and 5).

Infrastructure Replacement Reserve Fund: The Master Bond Resolution was revised to provide for the creation and funding in 1993 of the Infrastructure Replacement Reserve Fund to support the infrastructure main replacement and rehabilitation projects. Budgeted funding was $1,500,000 and $960,000 for 2008 and 2007, respectively. The total actual deposits were $1,500,000 and $2,450,000 in 2008 and 2007, respectively. The balance at December 31, 2008 is invested in a money market fund guaranteed by the U.S. Treasury and stated at fair value.

U. S. Treasury State and Local Government Fund: The Series 2 Note Reserve was established in the amount of $1,440,400 pursuant to the Master Bond Resolution. The note was paid in August 1993 and the reserve amount was transferred to the Company and was deposited in the U.S. Treasury State and Local Government Fund. The excess funds from the 2001 Bond Refunding were deposited in this fund. The fund is invested in U.S. Treasury bonds and is stated at fair value.

Bond Service Account: Except to the extent that the interest and principal are to be paid from other available sources, the Company is required to deposit monthly, into the Trustee's Bond Service Account, one-sixth of the amount of the next succeeding interest payment on the 2001 Bonds outstanding and one-twelfth of the next maturing principal of those bonds. The account is invested in a government obligation mutual fund and is stated at fair value.

NOTE 5 - 2000 Bond Issue Resolution Funds

Bond Reserve Account: The resolution authorizing the Bond Issue of 2000 requires that a bond reserve account be established at one-half of the highest future annual maximum aggregate net bond service. As an alternative, the Resolution provides for deposit of an insurance policy, surety bond or other comparable security into the Reserve Account in an amount sufficient to meet the bond reserve requirement. The Company maintains an insurance policy to meet this requirement. The policy is to be used to pay maturing bonds and interest in the event funds in the Bond Service Account are not sufficient.

Depreciation Fund: The Series 2000 Bond Resolution authorizing the Bond Issue of 2000 requires the Company to maintain the depreciation fund in the same manner as required for the 2001 series (refunding 1992) bond issue (see Note 4).

Bond Service Account: Per the Series 2000 Bond Resolution, except to the extent that the interest and principal are to be paid from other available sources, the Company is required to deposit monthly, into the Trustee's Bond Service Account, one-sixth of the amount of the next succeeding interest payment on the 2000 Bonds outstanding and one-twelfth of the next maturing principal of those bonds. The account is invested in a government obligation mutual fund and is stated at fair value.

Operation Fund: Per the Series 2000 Bond Resolution, each month the Company shall, after making required payments to the Bond Service Account, the Bond Reserve Account, and the Depreciation Fund, withdraw from the Revenue Fund and deposit with a Depository in the name of the Company to the credit of the Operation Fund the balance remaining in the Revenue Fund. The fund is included in cash and temporary investments.

Rebate Fund: The Rebate Fund is created by the Series 2000 Bond Resolution. Monies credited to the Rebate Fund shall be free from the lien of the Resolution. Payments shall be made by the Board and the Company within 15 days following each five-year computation period for the calculation of excess rebateable arbitrage under the Internal Revenue Code. The Board and the Company have covenanted to rebate excess earnings to the United States in accordance with law. There were no deposits required to be made to this fund during 2008 or 2007.

NOTE 6 - Reserves

Reserve Funds include the following

	YEAR ENDED DECEMBER 31 2008	2007
Bond related reserves		
Bond reserve account	$ 6,031,954	$ 6,242,761
Depreciation fund	38,838,220	47,074,443
Infrastructure replacement reserve fund	14,334,974	16,210,279
U.S. Treasury state and local government fund	1,640,143	1,640,143
Total Bond related reserves	60,845,291	71,167,626
Other		
Bullitt County water reserve	23,503	204,632
Total Other reserves	23,503	204,632
	$ 60,868,794	$ 71,372,258

NOTE 7 - Cash And Investments

The Company has adopted the provisions of GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. This statement adds certain additional disclosures about cash and investments, including common areas of investment risk.

The Company's investment policy specifies that the primary objectives, in priority order, of investment activities is safety, liquidity and yield. In addition, funds are to be invested in conformity with federal, state and other legal requirements, including bond resolutions.

At December 31, 2008 and 2007, the Company had cash and temporary investments of $27,111,299 and $14,297,159, respectively. Of these amounts, $16,706,864 and $1,926,581 was cash in 2008 and 2007, respectively. At December 31, 2008, $15,145,458 of cash was collateralized by financial institutions with pledged assets and $761,139 was covered by insurance provided by the Federal Deposit Insurance Company ("FDIC"). The remaining cash balance was uninsured and uncollateralized.

The Company had investments as follows:

	YEAR ENDED DECEMBER 31 2008	2007
U.S. Treasury Bonds, 8.22%, due November 15, 2013	$ 4,700,000	$ 4,700,000
Mutual Funds	37,403,743	4,889,559
Certificate of Deposits	5,024,747	-
Sweep Accounts	24,000	63,486,001
	$ 47,152,490	$ 73,075,560

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to it. The Company does not have a formal deposit policy for custodial credit risk; however, the Company has accounts set up to mitigate this risk: (i) certain deposits are collateralized by pledged assets; and (ii) insurance provided by the FDIC; and (iii) accounts are set up with overnight sweep accounts so that cash is invested in short term, liquid investments daily to minimize the amount of cash not covered by insurance provided by the FDIC.

Custodial Credit Risk – Investments: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Company will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Company's investments are held in the name of the Company by a trustee, certain funds are participating in the U.S. Treasury Guarantee Program for money market funds and certificate of deposit amounts are covered under FDIC insurance.

Concentration of Credit Risk: The Company has no restrictions on the amount it may invest in any one issuer.

Interest Rate Risk: The Company does not have a formal policy limiting maturities of its investments. Investments are made based on the prevailing market conditions and anticipated cash needs at the time of the transaction.

Credit Risk: The Company has historically only purchased investment grade securities. The Standard & Poor's rating for the U.S. Treasury Bonds listed above is AAA.

NOTE 8 - Utility Plant, Net

The following is a schedule of utility plant for the year ended December 31, 2008

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE
Capital assets not being depreciated:				
Land	$ 7,215,745	$ 499,067	$ (1,284)	$ 7,713,528
Construction in progress	58,411,614	73,130,662	(57,901,302)	73,640,974
Total capital assets not being depreciated	65,627,359	73,629,729	(57,902,586)	81,354,502
Other capital assets:				
Buildings	89,047,541	12,411,531	(102,203)	101,356,869
Machinery and equipment	46,629,291	3,339,563	(238,886)	49,729,968
Infrastructure	862,366,257	36,680,316	(2,082,974)	896,963,599
Total other capital assets at historical cost	998,043,089	52,431,410	(2,424,063)	1,048,050,436
Less accumulated depreciation for:				
Buildings	(31,815,475)	(2,135,997)	79,131	(33,872,341)
Machinery and equipment	(29,780,358)	(4,088,645)	227,897	(33,641,106)
Infrastructure	(217,732,631)	(17,156,218)	1,013,478	(233,875,371)
Total accumulated depreciation	(279,328,464)	(23,380,860)	1,320,506	(301,388,818)
Other Capital Assets, Net	718,714,625	29,050,550	(1,103,557)	746,661,618
Capital Assets, Net	$ 784,341,984	$ 102,680,279	$ (59,006,143)	$ 828,016,120

The following is a schedule of utility plant for the year ended December 31, 2007

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE
Capital assets not being depreciated:				
Land	$ 7,179,623	$ 36,122	-	$ 7,215,745
Construction in progress	50,972,036	66,009,245	(58,569,667)	58,411,614
Total capital assets not being depreciated	58,151,659	66,045,367	(58,569,667)	65,627,359
Other capital assets:				
Buildings	81,861,766	7,341,231	(155,456)	89,047,541
Machinery and equipment	46,389,741	2,481,704	(2,242,154)	46,629,291
Infrastructure	820,382,538	48,869,369	(6,885,650)	862,366,257
Total other capital assets at historical cost	948,634,045	58,692,304	(9,283,260)	998,043,089
Less accumulated depreciation for:				
Buildings	(29,504,529)	(2,439,250)	128,304	(31,815,475)
Machinery and equipment	(27,788,470)	(4,176,901)	2,185,013	(29,780,358)
Infrastructure	(203,390,125)	(16,331,621)	1,989,115	(217,732,631)
Total accumulated depreciation	(260,683,124)	(22,947,772)	4,302,432	(279,328,464)
Other Capital Assets, Net	687,950,921	35,744,532	(4,980,828)	718,714,625
Capital Assets, Net	$ 746,102,580	$ 101,789,899	$ (63,550,495)	$ 784,341,984

NOTE 9 - Long-Term Liabilities

Long-term liabilities at December 31, 2008, are summarized as follows:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	CURRENT PORTION	NONCURRENT PORTION
Bonds payable	$ 188,455,000	-	$ (8,580,000)	$ 179,875,000	$ 9,310,000	$ 170,565,000
Unamortized debt premium	2,423,415	-	(139,602)	2,283,813	-	2,283,813
Customer advances for construction	3,831,949	641,192	(896,640)	3,576,501	-	3,576,501
Total Long-Term Liabilities	$ 194,710,364	$ 641,192	$ (9,616,242)	$ 185,735,314	$ 9,310,000	$ 176,425,314

Long-term liabilities at December 31, 2007, are summarized as follows:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	CURRENT PORTION	NONCURRENT PORTION
Bonds payable	$ 195,560,000	-	$ (7,105,000)	$ 188,455,000	$ 8,580,000	$ 179,875,000
Unamortized debt premium	2,563,018	-	(139,603)	2,423,415	-	2,423,415
Customer advances for construction	2,955,109	1,676,216	(799,376)	3,831,949	-	3,831,949
Total Long-Term Liabilities	$ 201,078,127	$ 1,676,216	$ (8,043,979)	$ 194,710,364	$ 8,580,000	$ 186,130,364

Bonds and notes payable consist of the following:

	YEAR ENDED DECEMBER 31 2008	2007
Water System Revenue Bonds, 2000 tax exempt, interest rates ranging from 5.0% to 5.5% with maturities from 2003 to 2025	$ 67,070,000	$ 69,490,000
Water System Revenue Bonds, 2001 tax exempt, interest rates ranging from 4.0% to 4.7% with maturities from 2001 through 2014	31,185,000	35,565,000
Water System Revenue Bonds, 2006 tax exempt, interest rates ranging from 4.0% to 5.0% with maturities from 2001 through 2031	81,620,000	83,345,000
Other Debt	-	55,000
	179,875,000	188,455,000
Less current portion	9,310,000	8,580,000
	$ 170,565,000	$ 179,875,000

All bonds are subject to optional redemption provisions.

The Water System Revenue Bond resolutions contain a rate covenant requiring that the schedule of rates and charges, and the rules and regulations for water services will not be revised so as to result in a decrease of revenues. Also, future adjustments to water rates and charges are required as necessary so that annual net revenues will not be less than 1.30% of the total annual bond debt service requirements for the then outstanding bonds.

Maturities of long-term debt are as follows:

YEAR	PRINCIPAL	INTEREST	TOTAL
2009	9,310,000	8,789,390	18,099,390
2010	9,945,000	8,368,640	18,313,640
2011	10,215,000	7,920,140	18,135,140
2012	10,695,000	7,458,365	18,153,365
2013	11,200,000	6,974,740	18,174,740
2014-2018	38,245,000	28,220,346	66,465,346
2019-2023	41,275,000	19,000,862	60,275,862
2024-2028	33,305,000	8,236,837	41,541,837
2029-2031	15,685,000	1,592,500	17,277,500
	$ 179,875,000	$ 96,561,820	$ 276,436,820

NOTE 10 - Dividends

The Company is required by bond resolution to pay a dividend to Metro Government, the sole stockholder. The dividend is calculated in accordance with the provisions of the resolution and paid quarterly based on budgeted income. The required annual dividend is sixty percent of the Company's net income before distributions and contributions with certain adjustments and exclusions. The dividend computed under these provisions was $17,530,210 for 2008 and $18,331,412 for 2007. A settlement based on actual net income is made the following year.

NOTE 11 - Deferred Compensation Plans

The Company offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits participating employees to defer a portion of their salary until future years. An employee may defer up to 100% of adjusted gross compensation or $15,500; whichever is less, to the plan. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency. Plan assets and liabilities are not recorded by the Company. The Company contributes $0.25 for every $1.00 of an employee's contribution up to $1,500 ($375 maximum Company contribution) to the plan. The amount contributed to the plan by the Company and charged to expense was approximately $74,833 and $69,862 for the years ended December 31, 2008 and 2007, respectively.

The Company has a defined contribution plan covering substantially all employees of the Company. An eligible employee may defer up to 100% of adjusted gross compensation or $15,500; whichever is less, to the plan. The Company contributes $0.25 for every $1.00 of an employee's contribution up to $1,500 ($375 maximum Company contribution) to the plan. The amount contributed to the plan by the Company and charged to expense was approximately $35,545 and $33,642 for the years ended December 31, 2008 and 2007, respectively.

NOTE 12 - Pension Plan

All full-time employees of the Company participate in the County Employee Retirement System ("CERS") which is a cost-sharing multiple-employer defined benefit retirement plan administered by Kentucky Retirement Systems ("KRS"), an agency of the Commonwealth of Kentucky. The CERS provides for retirement, disability and death benefits to plan members and beneficiaries. The KRS issues a publicly available financial report that includes financial statements and required supplemental information for the CERS. That report may be obtained by writing to the KRS, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by visiting their website at www.kyret.com.

Plan members are required to contribute 5% of creditable compensation if hired before September 1, 2008. Plan members hired on or after that date are required to contribute 6% of creditable compensation. For 2008 and 2007, participating employees contributed creditable compensation to CERS totaling $1,350,982 and $1,313,017, respectively. The Company is required to contribute the remaining amounts necessary to pay benefits when due. The Company's actuarially determined contribution rate was 13.19% effective July 1, 2006, 16.17% effective July 1, 2007 and 13.50% effective July 1, 2008. Employer contribution rates are intended to fund the normal cost on a current basis plus an amount equal to the amortization of unfunded past service costs over thirty years. The Company contributed $4,235,556, $4,081,601 and $3,411,290 for 2008, 2007, and 2006, respectively. The Company's total payroll was $29,133,096 and $27,851,532 for 2008 and 2007, respectively. CERS covered payroll was $27,015,696 and $26,258,928 for 2008 and 2007, respectively.

In addition to the assets transferred from its previous plan, the Company became obligated to CERS for $4,273,873 for remaining unfunded past service costs. The remaining liability for unfunded past service costs plus accrued interest was paid with proceeds from the 1992 Series 2 Note Payable. The related past service cost asset is being amortized over twenty years on the straight-line method.

NOTE 13 - Contingent Liabilities

The Company retains certain insurable risks up to a fixed maximum per claim exposure. Liability claims are retained up to $1,000,000 per occurrence, with insurance coverage for any judgment or settlement of up to $35,000,000 above that amount. Workers' compensation is self-funded up to $350,000 per claim prior to October 1, 2004. Beginning October 1, 2004 through September 30, 2007, the per claim amount is $450,000 increased to $500,000 beginning October 1, 2007, with an aggregate limit of 90% of the premium that would be developed by applying the rate times the payroll. A reserve of $1,658,747 and $1,483,199 was established at December 31, 2008 and 2007, respectively, to provide for liability and worker's compensation claims incurred.

The Company is involved in litigation, which has arisen out of operations in the ordinary course of business. While it is not possible to forecast the outcome of this litigation, it is the opinion of the Company's management, based on evaluations by outside counsel, that it will not have a material adverse effect on the financial statements of the Company.

SUPPLEMENTAL INFORMATION

Schedule of Investments

Louisville Water Company

December 31, 2008

		MATURITY	PAR	FAIR MARKET VALUE
Bond Reserve Account - Series 2001 U.S. Treasury Bonds	8.22%	11/15/13	$ 3,059,857	$ 3,059,857
U.S. Treasury State and Local Government Fund U.S. Treasury Bonds	8.22%	11/15/13	1,640,143	1,640,143
Bullitt County Water Reserve Sweep Account	0.47%		23,000	23,000
Depreciation Fund Sweep Account	0.51%		1,000	1,000
Depreciation Fund CDARS	2.23%	3/5/09	5,024,747	5,024,747
Depreciation Fund BlackRock Liquidity Funds	1.36%		18,395,713	18,395,713
Infrastructure Replacement BlackRock Liquidity Funds	1.49%		14,333,763	14,333,763
Bond Reserve Account - Series 2006 First American Funds	0.83%		2,972,097	2,972,097
Bond Service Account - Series 2000 First American Funds	0.83%		522,932	522,932
Bond Service Account - Series 2001 First American Funds	0.83%		633,682	633,682
Bond Service Account - Series 2006 First American Funds	0.83%		545,556	545,556
			$ 47,152,490	$ 47,152,490

See Independent Auditors' Report

Summarized Schedule of Bond Issues

Louisville Water Company

December 31, 2008

2006 Series Bond Issue

The Water Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Master resolution date	July 14, 1992
Third supplemental resolution date	May 25, 2006
Original amount	$83,845,000
Interest rate	4.00% to 5.00%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2016

Sinking Fund installments for 2030 and 2031 maturity bonds:

NOVEMBER 15, 2030		NOVEMBER 15, 2031	
YEAR	AMOUNT	YEAR	AMOUNT
2030	$5,225,000	2031	$5,470,000
	$5,225,000		$5,470,000

2001 Series Bond Issue

The Water Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Master resolution date	July 14, 1992
Second supplemental resolution date	February 13, 2001
Original amount	$60,300,000
Interest rate	4.00% to 4.70%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2010

2000 Series Bond Issue

The Water Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Master resolution date	July 14, 1992
Supplemental resolution date	August 8, 2000
Original amount	$78,500,000
Interest rate	5.00% to 5.50%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions	100% after November 15, 2010

Sinking Fund installments for 2022 and 2024 maturity bonds:

NOVEMBER 15, 2022		NOVEMBER 15, 2024	
YEAR	AMOUNT	YEAR	AMOUNT
2021	$4,710,000	2023	$5,260,000
2022	4,975,000	2024	5,555,000
	$9,685,000		$10,815,000

See Independent Auditors' Report

Schedule of Outstanding Bond Indebtedness and Annual Debt Service Requirements

Louisville Water Company

December 31, 2008

	2006 BONDS		
YEAR ENDING DECEMBER 31	PRINCIPAL INSTALLMENTS	INTEREST	AGGREGATE BOND SERVICE
2009	$ 2,180,000	$ 3,885,856	$ 6,065,856
2010	2,465,000	3,798,656	6,263,656
2011	2,370,000	3,700,056	6,070,056
2012	2,460,000	3,605,256	6,065,256
2013	2,555,000	3,506,856	6,061,856
2014	2,655,000	3,404,656	6,059,656
2015	2,760,000	3,298,456	6,058,456
2016	2,870,000	3,160,456	6,030,456
2017	2,985,000	3,016,956	6,001,956
2018	3,110,000	2,867,706	5,977,706
2019	3,240,000	2,731,644	5,971,644
2020	3,375,000	2,585,844	5,960,844
2021	3,520,000	2,429,750	5,949,750
2022	3,675,000	2,253,750	5,928,750
2023	3,835,000	2,070,000	5,905,000
2024	4,000,000	1,878,250	5,878,250
2025	4,180,000	1,678,250	5,858,250
2026	4,365,000	1,469,250	5,834,250
2027	4,565,000	1,251,000	5,816,000
2028	4,770,000	1,022,750	5,792,750
2029	4,990,000	784,250	5,774,250
2030	5,225,000	534,750	5,759,750
2031	5,470,000	273,500	5,743,500
	$ 81,620,000	$ 55,207,898	$ 136,827,898

See Independent Auditors' Report

Schedule of Outstanding Bond Indebtedness and Annual Debt Service Requirements

Louisville Water Company

December 31, 2008

2001 BONDS

YEAR ENDING DECEMBER 31	PRINCIPAL INSTALLMENTS	INTEREST	AGGREGATE BOND SERVICE
2009	$ 4,590,000	$ 1,415,015	$ 6,005,015
2010	4,820,000	1,208,465	6,028,465
2011	5,055,000	991,565	6,046,565
2012	5,305,000	764,090	6,069,090
2013	5,570,000	525,365	6,095,365
2014	5,845,000	274,716	6,119,716
	$ 31,185,000	$ 5,179,216	$ 36,364,216

2000 BONDS

YEAR ENDING DECEMBER 31	PRINCIPAL INSTALLMENTS	INTEREST	AGGREGATE BOND SERVICE
2009	$ 2,540,000	$ 3,488,519	$ 6,028,519
2010	2,660,000	3,361,519	6,021,519
2011	2,790,000	3,228,519	6,018,519
2012	2,930,000	3,089,019	6,019,019
2013	3,075,000	2,942,519	6,017,519
2014	3,235,000	2,788,769	6,023,769
2015	3,405,000	2,627,019	6,032,019
2016	3,590,000	2,452,512	6,042,512
2017	3,790,000	2,264,037	6,054,037
2018	4,000,000	2,065,062	6,065,062
2019	4,225,000	1,855,062	6,080,062
2020	4,460,000	1,633,250	6,093,250
2021	4,710,000	1,399,100	6,109,100
2022	4,975,000	1,151,825	6,126,825
2023	5,260,000	890,637	6,150,637
2024	5,555,000	614,487	6,169,487
2025	5,870,000	322,850	6,192,850
	$ 67,070,000	$ 36,174,705	$ 103,244,705

See Independent Auditors' Report

Schedules of Operation and Maintenance Expenses And Taxes

Louisville Water Company

Years ended December 31, 2008 and 2007

Year ended December 31	2008	2007
Operation and Maintenance Expenses		
Pumping	$ 5,579,324	$ 5,311,636
Water Treatment	8,832,646	8,461,226
Transmission and distribution	14,911,311	14,509,075
Customer accounts expenses	8,577,694	7,520,134
Administrative and general expenses	19,936,544	18,790,313
Operation expenses under/over applied	(471,547)	121,544
Total Operation and Maintenance Expenses	$ 57,365,972	$ 54,713,928
Taxes		
Water and fire services in lieu of taxes	$ 11,404,593	$ 11,170,365
Social security taxes	2,044,772	1,949,582
Miscellaneous	6,816	36,199
Payroll taxes allocated	(2,044,772)	(1,949,582)
Total Taxes	$ 11,411,409	$ 11,206,564

See Independent Auditors' Report

CORPORATE INFORMATION

Board Members

Jerry Abramson
Mayor, Louisville Metro
(ex officio)

Wendy C. Welsh
Chair, Board of Water Works
Senior Vice President,
Information Technology
E.ON U.S.

Gerald Martin
Vice Chair, Board of Water Works
Vice President and
Managing Member
River Hill Capital, LLC

Ed Crooks
Assistant Business Manager
Plumbers and Pipefitters
Local Union 502

Margaret Leavell Harris
Retired Executive
BellSouth Telecommunications

Tandy Patrick
Lawyer
Greenbaum Doll and
McDonald PLLC

Marita Willis
Assistant Vice President
PNC Bank

Board of Water Works

The Board of Water Works is composed of seven members:

- The Louisville Metro Mayor appoints all members.
- The membership is bi-partisan, with no more than 50 percent from the same political party.
- All new board members serve staggered four-year terms.
- The Louisville Metro Mayor serves as ex officio.

The board meets the second Tuesday of each month at 12:30 p.m. at 550 South Third Street. Each April, the board appoints officers of the company.

Executive Leadership Team

Left to right

Barbara Dickens – Vice President, General Counsel and Secretary

Dave Vogel – Vice President, Customer Service and District Operations

Ed Chestnut – Vice President, Administration

Jim Brammell – Vice President, Operations and Chief Engineer

Greg Heitzman – President/CEO

Billy Meeks – President, AFSCME Local 1683

Amber Halloran – Vice President, Finance - Treasurer

Louisville Water Company, 550 South Third Street, Louisville, Kentucky 40202 502.569.3600 www.louisvillewater.com

PROVIDING THE MOST NECESSARY OF ALL COMMODITIES:
SAFE, CLEAN WATER.